

GUIDELINES FOR FY13 LFC APPROPRIATION RECOMMENDATION

I. PURPOSE

The LFC budget guidelines provide analysts with direction on performance-based budgeting, the preparation of the budget narrative, and the development of FY13 recommendations on recurring appropriations, priority capital spending, and other one-time investments. The guidelines also serve to inform state agencies and the general public about LFC priorities and the committee's approach to budget recommendations for FY13.

II. REVENUE OUTLOOK

According to the July 2011 Consensus Revenue Estimate, FY11 recurring revenues will exceed the December forecast by \$111 million. Revenues are estimated to reach \$5.275 billion, or 9.9 percent, above FY10 revenues. Revenues in FY12 are estimated to reach \$5.533 billion, or 4.9 percent, over FY11. Gross receipts tax (GRT) and energy related revenues contributed the most to the growth. If this trend continues then the amount of new money in FY13 will be \$367 million, or 6.7 percent, of FY12 appropriations. New money is defined as FY13 projected revenue less FY12 appropriations.

New Mexico risks losing approximately \$40 million of tobacco settlement funds in FY12, of which \$20 million is dedicated to health and educational purposes, unless new legislation is passed establishing that the state will collect tobacco escrow payments from all non-participants.

During the 2011 session, House Bill 628 (Ch 178) was passed, requiring state employees to contribute an additional 1.75 percent to retirement plans. The legislation provided an additional \$49.7 million in FY12 appropriations. Under statute, the contribution swap will continue in FY13 unless the December 2011 revenue forecast projects revenues to be \$100 million above FY12 appropriations and reserve levels are at 5 percent at the end of FY12. An additional 1.5 percent retirement swap that passed during the 2009 session will remain in place until FY14.

III. FY13 PRIORITY AND APPROACH

The goal of the committee is to propose a balanced budget for the operations of government that preserves the state's most critical services and ensures at least a 5 percent general fund reserve. The committee's goal should be accomplished while continuing to emphasize education, public health, and public safety and ensuring care is provided for the state's most vulnerable citizens. Overall, the committee will emphasize maintaining flat general fund appropriation funding levels in most state agency budgets. However, growth in general fund appropriations might be required to replace nonrecurring revenue, address unavoidable medical and per diem inflationary costs, and implement funding formula changes.

The committee will prioritize funding for existing programs that demonstrate efficiency and effectiveness, are linked to agency strategic plans and performance goals, and do not duplicate other programs. Consolidation of agencies, programs, and staff will be considered where either

operational efficiencies or financial savings can be realized without reducing services. Any expenditure reductions will be targeted rather than across-the-board. To the extent possible, the committee will develop budgets with a goal of avoiding furloughs or reductions-in-force.

The LFC may also review whether to continue certain expenditure or revenue replacement strategies used to balance previous-year budgets, including use of tobacco settlement revenue in the Medicaid program, removal of instructional material funding levels in the school funding formula, delay of enhanced state contributions to the educational retirement fund, and increased employee contributions toward retirement programs.

Accordingly, analysts, in developing budget recommendations will

- Identify opportunities for consolidating or streamlining duplicate programs and activities, eliminating earmarks, and enhancing efficiency;
- Identify successful programs that provide the best return to taxpayers;
- Identify programs that might be of lower priority to the state in a revenue-constrained environment; and
- Continue to search for cost-saving opportunities in all areas of the budget.

IV. PERFORMANCE AND ACCOUNTABILITY

The Accountability in Government Act (AGA) remains a priority. Analysts should integrate agency performance results into their budget analysis and, whenever possible, align budget recommendations with program achievement. Consideration for continued base funding should be given to those programs that demonstrate results, effective design, and strong planning and management.

Analysts should follow these guidelines in reviewing agency performance:

- Agency strategic plans should ensure the stated mission, goals, and objectives are consistent with statute and state policies and overarching programs are coordinated among divisions and, where applicable, across agencies.
- The committee recommendation and policy discussions should be aligned and focused on the achievement of the agency's strategic goals.
- Performance targets should be benchmarked whenever possible. Benchmarking means comparing performance with other states or other comparable providers. Suggested resources for benchmarking include federal standards, best practice standards set by other agencies, historical data, and desired results.
- Where inadequate performance measures impede the ability to make informed performance-based budget recommendations, analysts should recommend new or alternative performance measures that better gauge program outcomes. Analysts should collaborate with the Department of Finance and Administration and with the agency.
- Performance data and results from recent LFC program evaluations should be used to

identify programs that are ineffective or producing marginal results. Analysts should ask agencies to explain underperformance or changes in targets. Analysts should, if necessary, recommend appropriate corrective action plans or a reprioritization of resources. Additionally, analysts may recommend various actions that reduce agency budget flexibility when poor performance or lack of progress in implementing the AGA or resolution of problems identified in LFC program evaluations exist.

Analysts' FY13 budget recommendations will ensure that all programs, sub-programs, and initiatives are reviewed to determine those that

- Are no longer needed because goals or other conditions have been met or changed;
- Exhibit mission drift or have demonstrated minimal success in fulfilling their missions;
- Are restricted in scope, thus limiting impact or efficiency;
- Are unfocused, cannot demonstrate effectiveness, or are ineffective based on external evaluations;
- Are not cost-effective;
- Could be funded by user fees or other alternative sources.

Particular consideration should be paid to the following:

- Services that duplicate those provided elsewhere within the public sector or by nonprofits to determine the most cost-effective method;
- Provider rates for subsidized medical, long-term care, and child care with federal Medicaid and Medicare and other guidelines to ensure rate increases are based on need and not desire or length of time since the last increase;
- The use of federal funds to ensure they are leveraged to the maximum extent possible;
- Eligibility levels for services as they compare with national averages and available revenue;
- Administrative functions of small agencies for opportunities to reduce costs and increase efficiency;
- Staffing levels as they compare with averages in other states to note where New Mexico is above the average, such as in higher education institutions; and
- Recommendations of other interim committees and restructuring taskforces or studies that align programs and activities that achieve an improved level of efficiency, service, or prioritization.

V. BUDGET GUIDELINES

The following budget guidelines apply to all agencies.

Full-Time Equivalents (FTE) and Vacancy Rates. Analysts shall reconcile FTE by classification (permanent, term, temp) and by program as authorized in Laws 2011, Chapter 179. Deviations or increases in base FTE should be presented as program expansions and supported by evidence of enhanced agency performance. The Department of Finance and Administration (DFA) instructions require agencies to submit a detailed listing of each agency position by revenue source that supports each position. Staff should review the personnel listing and recommend elimination of nonessential positions.

As a general guideline, consistent with the guidelines provided by DFA, analysts shall review the continued need for FTE that have been vacant for more than six months and are not considered part of the core mission and operations of the agency. All other vacant positions determined to be necessary should be budgeted at a salary band that ensures effective recruitment and retention of qualified candidates in the New Mexico state personnel system. Average health insurance rates should be budgeted, unless otherwise justified. Staff will apply a vacancy savings factor to agencies with more than 25 FTE based on review of historic turnover rates and past budget adjustments that moved funds from the personal services and employee benefits category. In their recommendations, analysts will compare the applied vacancy rate to the historical vacancy rate for the agency. Requests for overtime should be evaluated to assure that best practices are in place to constrain overtime costs.

Analysts shall identify employees working for one agency but being paid from a funding source at another agency and recommend shifting the funds to the agency where the employee is officially working. A “state agency” is defined in Section 6-3-1 NMSA 1978.

Expenditures. Analysts should review FY11 actual expenditures with their agencies (including the status on any large accounts payables balances) to ensure that they have the most up-to-date and accurate information prior to analyzing agency expenditure trends. Analysts should understand the rationale behind large increases or decreases in agency expenditures.

Contractual Services. Staff should analyze requests for professional services contracts, including whether the proposed contracts address agency priorities, performance criteria, and agency monitoring activities. Analysts shall use the monthly *Contracts Report* provided by the DFA and information in the New Mexico Sunshine Portal to analyze an agency’s historical use of contractual services.

Cash Balances. To reduce the need for revenue from the general fund, staff will analyze cash balances and, where possible, include all or a portion of the cash balance in the FY13 budget recommendation. Cash balances should be used for nonrecurring purposes. Governing statutes will be reviewed to determine if funds are budgeted appropriately and if they can be used for other purposes. To validate cash balances, analysts will review and analyze SHARE reports, as well as reports produced by the DFA Financial Control Division and available agency audit reports. Analysts should scrutinize expenditures where an earmarked revenue is in decline or unavailable.

Building Lease Costs. For agencies with significant lease costs, alternatives to leasing should be evaluated, such as relocation to existing vacant state buildings or use of capital funds for new facilities. Analysts should factor in reduced staffing levels, agency consolidations, and market factors such as commercial property vacancy rates. Analysts should review space utilization data, including FTE per square foot by building or property to identify opportunities for consolidation. Analysts should also compare lease rates of comparable properties and identify rate escalation clauses for potential savings.

Federal Funds. Staff is directed to compare the information on the R-forms provided in the budget requests with historical budget adjustment activity, deviations from the General

Appropriation Act in the operating budget, the LFC federal funds schedule for key agencies, and the database provided by the Federal Funds Information Service (FFIS) to ensure federal funds are accurately reflected in the budget recommendation. Staff shall also use historical budget adjustment request (BAR) information to determine if the level of federal funds is accurately reflected in the agency request. In addition, federal funds should be leveraged to the maximum extent possible.

Base Expansion. Staff will critically review the merits of any expansions of existing base programs. (Workload growth is not considered a program change.) Analysts must avoid financing expansions with nonrecurring revenue. Generally, expansions, other than those identified as a committee priority, must be financed through reprioritization of current appropriation levels. All expansions must be tied to enhanced performance and explained in the budget document accordingly.

Expansion positions should be budgeted for a partial year if it is unlikely they will be filled by July 1, 2012.

Capital Outlay. Staff will consider operating budget implications when reviewing requests for capital outlay. Staff will review agency infrastructure capital improvement plans (ICIP) and significant capital outlay appropriations made during the 2010 and 2011 legislative sessions. The staff will evaluate capital outlay appropriations from previous years and monitor progress toward completion. Recommendations will consider funding in operating budgets for maintaining infrastructure in future years.

Agency Audit Reports. Staff will use the agency's annual financial audit report in preparing the FY13 budget recommendation. Staff will pay close attention to reversions and unreserved or undesignated fund balances. Significant audit findings will be reported to the LFC.

Budget Adjustment Requests. Analysts should use historical BAR information to identify opportunities to evaluate the adequacy of program funding and the potential to shift funding to other areas. Staff is directed to review BAR language in the General Appropriation Act and to propose modified language that will clarify any ambiguities or close loopholes.